Case Study Two

Dairy farmer milking approximately 350 cows as a sole proprietor. Husband is 54, wife is 53, with two daughters, ages 29 and 27 and one son who is 24. Son is actively working in the farm and responsible for many decisions.

Before Planning	
Assets	**Value**
Cash	$ 327,677.00
Stocks/Patronage	$ 97,693.00
Life Insurance (has accelerate benefit rider that can be used for LTC)	$ 1,428,786.00
Net Farming Operation	$ 2,230,000.00
158 acres with Building	$ 1,175,000.00 (net)
House on 2 acres	$ 300,000.00
470 acres	$ 3,000,000.00 (net)
Gross Estate	**$ 8,559,156.00**

Goals

- Create Estate Plan to control property while alive and well
- Reduce tax liability – both income taxes and estate taxes
- Provide adequate retirement income
- Begin transition of farm operation to son
- Protect children's inheritance from divorce, lawsuit and bankruptcy
- Have son receive the farming operation and the land
- Have girls receive an equitable distribution

The Plan

- Created LLC for the farming operation
    - This will allow for the entrance of the son as an owner and will be used as a tool to transition the farming operation to the son
- Used part of lifetime gifting exclusion (709) to gift son 10% of farming operation.
    - Plans are to additionally gift annual exclusion amount on an annual basis
- LLC to rent land and building from clients to create passive income that will save on self-employment taxes and allow for adequate retirement income

- Created Revocable Living Trusts (RLT) dealing with disability issues related to voting membership units, rights to rent, and right to purchase membership units.
    - RLTs also maximize the estate tax savings and distribute LLC units owned by parent to son at each death and upon the second death distribute land to son in protective trust share
- Created Irrevocable Life Insurance Trust to own some of the current life insurance and second to die contract to provide equitably for daughters